## MITCHELL J. LANDRIEU, MAYOR

## **CITY OF NEW ORLEANS**

July 17, 2012

Sewerage and Water Board of New Orleans 625 Saint Joseph Street New Orleans, LA 70165

Dear fellow Sewerage and Water Board members,

Repairing our city's infrastructure is essential. Providing safe drinking water and protecting homes from flooding are basics of government that benefit every citizen and business in New Orleans.

Beyond improving our quality of life, rebuilding infrastructure at the Sewerage and Water Board (S&WB) provides an opportunity to create thousands of jobs for New Orleanians. As we train the next generation of technicians at the S&WB, as we repair pipelines and as we construct new projects, the people of New Orleans will be put to work.

Here in New Orleans, we know all too well the costs of poorly maintained infrastructure. Post-Katrina, the S&WB's network of underground pipes is leaking at least 40 percent of its water. The power plant has suffered multiple catastrophic outages, one of which resulted in a boil water order for the east bank of our city. In addition, the S&WB continues its work to meet the requirements of a Consent Decree originally signed in 1998 and modified in 2010 to bring its wastewater treatment into compliance with federal safety regulations.

As you are aware, the city has kicked the can down the road for many years. As a consequence, S&WB's water bonds have been downgraded to junk status, important projects delayed, preventative maintenance deferred, and staff reduced.

In November of 2009, the Board of Liquidation issued a Material Event Notice to bondholders for S&WB revenue bonds because of its failure to meet debt service obligations. As a result, the S&WB initiated a financial study by Raftelis Financial Consultants in April 2010 to identify the financial requirements for the systems over the next ten years and to develop recommended approaches for fully funding those requirements.

What is clear to me is that the S&WB currently does not have what it needs in terms of infrastructure and funding to serve a 21<sup>st</sup> century American city. As a result, the condition of the systems continues to degrade, customer satisfaction is low, and financial institutions are unwilling to provide additional borrowed capital.

For these reasons, I agree with the S&WB's expert consultants, the citizen's task force, the Bureau of Governmental Research and others: a rate increase of some kind is necessary and inevitable.



We are working hard to secure federal and state resources to keep costs for consumers as low as possible. Through these efforts, we have reduced the estimated rate increase by both 2 percent per year for both water (14% to 12% annual increase) and sewerage rates (15% to 13% annual increase):

- Since taking office, over \$125 million in new FEMA funding has been committed for S&WB projects, including repairs of thousands of water and sewer lines, the power plant, as well as pumps and pump stations.
- Secured FEMA and state Hazard Mitigation funds to repair the aging S&WB power plant. We anticipate allocating nearly \$150 million of Hazard Mitigation funds for the S&WB power plant. We are also working on the cancellation of outstanding Community Disaster Loans.
- Working with the U.S. Army Corps of Engineers regarding the payment of operating and maintenance costs for the future permanent pump stations, which at approximately \$12 million annually, represents a cost we believe is the federal government's obligation.
- Working with the congressional delegation on a strategy to fund SELA utility relocation costs to coincide with the 30 year payback of the program.
- Working with the Department of Environmental Quality on extending the term of our consent decree for the sewerage system. This would free up mandated funding in the short-term.
- Working with the Department of Environmental Quality on low interest loans for specific projects, which would reduce the capital cost.

We have accelerated these conversations with our federal and state partners so that any rate increase can be more affordable and sustainable for the residents of our city. Our work here continues.

I am concerned that proposed rate increase as it currently stands is not structured appropriately. Therefore, I am requesting that S&WB staff and consultant Raftelis to report back on the following issues over the course of the next 30-60 days:

- 1. Analyze options for reducing the proposed rate increase. For example, can it be spread out at a lower rate of increase over a longer period of time so that it is more affordable for our citizens? Are there options for a reduced increase by funding fewer services?
- 2. Identify the reforms and customer service improvements that would accompany new revenue from rate payers.
- 3. Quantify the number of jobs that can be created through the capital improvement plan and in-house training program that would be paid for with the proposed rate increases.
- 4. Identify the consequences and the action plan if the proposed rate increase does not become a reality. What is the contingency plan? What projects would not happen? How would basic water and drainage service be impacted?

It is my hope that answers to these questions can help our community come together to make an informed decision and find consensus on a pathway forward.

Thank you for your service.

Sincerely,

Mitch Landrieu

Mayor

City of New Orleans

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